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SIPDIS

TREASURY FOR FRANCISCO PARODI
EEB/IFD/OMA FOR ANDREW SNOW

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TAGS: ECON EFIN TU

SUBJECT: TURKEY: GOT HITTING POLITICALLY ACCEPTABLE LIMITS
IN IMF TALKS

REF: A. ANKARA 85
1B. ANKARA 68

Classified By: Economic Counselor Dale Eppler for reasons 1.4 b,d

11. (C) Treasury Undersecretary Ibrahim Canakci briefed DCM and Econ Couns on the status of IMF negotiations on January 23, the day the talks were scheduled to conclude. Canakci said that they had closed some issues but there were both technical and policy issues still open. The Fund Mission will stay a few more days to continue talks. The GOT wants to conclude the discussions with a signed agreement during this Mission.

12. (C) Mainly, Canakci said, the problems are political. Technical issues are easy to resolve and numbers can be agreed on, but they create gaps and the need for new measures to fill them. The content, timing and the measures themselves are political issues. Canakci said the Fund does not seem to understand that a Fund program has to be both economically meaningful and politically feasible. "If we focus only on the former, the program won't work."

13. (C) The GOT has come as far as it can politically. It has agreed, Canakci said, to a realistic macro-economic framework and on some difficult adjustment measures, "but the Fund keeps asking for more and more." For example, Cankaci said the GOT cut TL3.5 billion from the budget and agreed to go beyond the TL 6 billion total adjustment that had been agreed in November (ref B), but that is the limit. The size of the fiscal remedy and its content are "critical." The GOT position is reasonable, Canakci asserted, it will be acceptable to markets and build confidence. Asking more is "impossible." It is very difficult to persuade politicians that Turkey cannot do the type of stimulus and support programs that are being done in the USA, UK and Germany.

14. (C) Canakci said they had come a long way on the Primary Fiscal Surplus. The Fund had started at 3%, then went to 2% and now is below 2%. As the talks are delayed, however, things get worse. "Two months ago," Canakci said, "we could have done a deal projecting 2% growth and markets would have accepted it; not now." The GOT understands that it would not be credible to just cut its growth forecast from 4% to 3% when private sector forecasts are at -1%. But he insisted that if the private sector expects -0.5% growth, it should be acceptable for the GOT forecast zero or 0.5%. "Some official optimism is expected."

15. (C) IMF Resident Rep Hosein Samei confirmed January 23 that the Mission would be staying for a few more days (departure date uncertain). Samei said negotiations were continuing at a more or less normal pace, but added that this is an entirely new program and it is more complicated and difficult than the GOT had expected. He was not optimistic about reaching an agreement during this Mission, but did not

rule it out. Econ Couns suggested that if no deal came out of this Mission, the Fund and the GOT should prepare some sort of joint statement to avoid spooking markets, since the GOT had all but promised that an agreement would be reached in January. Also, it is election season and any failure to reach a deal could quickly become a political issue. Samei said he understood the concern and that they already were working on ways to address it.

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Jeffrey